

Report to: Cabinet Meeting: 18 February 2025  
 Portfolio Holder: Councillor Paul Peacock, Strategy, Performance & Finance  
 Director Lead: Sanjiv Kohli, Deputy Chief Executive, Director - Resources & Section 151  
 Lead Officer: Nick Wilson, Business Manager Financial Services, Ext. 5317

<b>Report Summary</b>	
<b>Type of Report</b>	Open Report, Key Decision
<b>Report Title</b>	2025/26 to 2028/29 Medium Term Financial Plan
<b>Purpose of Report</b>	To present the Council’s Medium Term Financial Plan (MTFP) for the four financial years between 1 April 2025 and 31 March 2029 (2025/26 to 2028/29).
<b>Recommendations</b>	That the Committee recommends the 2025/26 to 2028/29 Medium Term Financial Plan (MTFP) for approval by the Full Council at their meeting to be held on 6 March 2025.
<b>Alternative Options Considered</b>	Not applicable, the Cabinet is required to make recommendations on the budget to the Full Council.
<b>Reason for Recommendations</b>	To provide a framework to support the Council’s future spending plans.

**1.0 2025/26 to 2028/29 Medium Term Financial Plan (MTFP)**

The Council’s Medium Term Financial Plan (MTFP) for the four financial years between 1 April 2024 and 31 March 2028 (2024/25 to 2027/28) was approved by Full Council on 7 March 2024.

This document seeks to update the MTFP’s assumptions on expenditure, income and financing for the four years between 2025/26 and 2028/29.

The main aims of the MTFP are to:

- a) deliver the Council’s Community Plan objectives over the life of the relevant Community Plan;
- b) clearly present the Council’s current predictions of its financial position between 2025/26 and 2028/29; and
- c) enable Members to make decisions which ensure the Council’s future financial sustainability.

The MTFP tries to do this by:

- a) bringing together in one place all known factors which will affect the Council's financial position; and
- b) matching how the Council plans to spend to deliver its Community Plan objectives with the expected resources available to fund that spend.

## 1.1 Financial Projections

The table below shows high level budget projections for the next four years, assuming annual increases of 2.99% in the rate of average band D council tax (excluding local precepts), together with annual increases in the Council tax base based on forecast housing growth.

Table 1

	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)	2028/29 (£m)
Net Service Expenditure (less capital charges)	20.502	20.832	20.928	21.522
Total Other Expenditure	0.145	0.786	1.046	1.107
<b>Total Expenditure</b>	<b>20.647</b>	<b>21.618</b>	<b>21.974</b>	<b>22.629</b>
Business Rates: receivable annually	(10.393)	(9.785)	(9.785)	(9.785)
Business Rates: other adjustments	(0.252)	0.000	0.000	0.000
Council Tax: receivable annually	(8.572)	(8.911)	(9.262)	(9.627)
Council Tax: other adjustments	0.174	0.000	0.000	0.000
Other Grants	(2.057)	(0.815)	(0.766)	(0.712)
Contribution (to) or from Reserves	0.453	0.174	0.174	0.174
<b>Funding Shortfall prior to Mitigations</b>	<b>0.000</b>	<b>2.281</b>	<b>2.335</b>	<b>2.679</b>

## 1.2 Financial Landscape

The Government has had plans to reform the local government finance system for several years. The Government initially intended for these reforms to take effect from 2020/21. It now appears likely that the funding reforms will be implemented during 2026/27.

The reforms will build on the framework set out in the previous government's abandoned review of the Relative Needs and Resources (originally Fair Funding Review).

The reforms of the system are principally to increase the proportion of non-domestic rates (NDR) ('business rates') retained locally; and to make fairer the Government's annual funding allocations for local authorities.

The impact of the Government's decision to delay the reform to the system has been positive on the funding position of Newark and Sherwood District Council. The delay in re-setting the NDR baseline has meant that expected NDR income for the years 2022/23 to 2025/26 is c£12.278m higher than forecast within the MTFP that was approved in March 2022.

It is of course, proper that we plan for the worst but the triggering of savings that impact on the provision of services needs to be appropriately timed and with the knowledge about the certainty of future central government funding. As it is not known how exactly the local

government finance system will change or from when these changes will take effect from, the Council's current modelling of funding projections for 2026/27 and future years are subject to high levels of volatility. It is anticipated that any change in funding model will include transitional support and the Government will consult on how to design on the transitional arrangements as well as the major changes in the funding formula.

Officers will closely monitor the Government's announcements relating to the local government finance system and assess the implications of these on the Council's funding for 2026/27 and future years.

### **1.3 Review of Relative Needs and Resources**

The Government is reviewing how it assesses the relative needs and resources of English local authorities, so that it can distribute funding to councils based on a more robust and up-to-date approach. Its review aims to address concerns that the current formula for determining each council's Baseline Funding Level (BFL) is unfair, out of date and overly complex.

The Government now plans to use an updated approach to distributing funding to councils expected from 2026/27. Much of the data that Government hold in relation to the current formula relates to 2013/14 and before hence significant work is necessary to recalibrate the formulae.

The Review will have an enormous effect on the Council's budget because it will affect the amount of BFL the Government will give the Council in future years, and thus also the amount of business rates the Council can retain. As per the table in section 1.1, business rates are expected to account for a large proportion of the Council's total expenditure (excluding capital charges) in each year of the Council's MTFP.

### **1.4 Retained Business Rates**

The introduction of the current 50% business rates retention system in 2013/14 has allowed councils which have increased their locally raised business rates income since this time to benefit from the additional income generated.

The Government plans to implement a reformed business rates retention system, though for changes not to take place until 2026/27 at the earliest. The reforms aim to:

- give local authorities greater control over the money it raises;
- support local economic growth;
- update the balance of risk (of loss) and reward (for growth) in the system; and
- make the system simpler and income less volatile.

Two main changes have been proposed for the business rates retention system. These are:

- 1) to increase the proportion of business rates retained locally from 50% to 75% or 100%; and
- 2) to reset the Business Rates Baseline (BRB).

The BRB is the Government's prediction of how much each council can raise locally in business rates.

As the Government intends to reform the business rates retention system in a way which is fiscally neutral, councils currently benefitting from growth in locally raised business rates income could see some of this income transferred to councils with reduced Business Rates Baselines.

Nonetheless, the planned increase in proportion of NDR retained locally means that promoting economic growth and inward investment will become ever more crucial to ensuring the Council's sustainability going forward.

The Council's MTFP accounts for planned reforms to the NDR retention system, though amounts for 2026/27 and future years are subject to higher levels of volatility. These have been modelled with the assistance of Pixel, the Council's external advisors who assist many authorities on national funding.

The Government expects to consult on the baseline reset "early in 2025", but at the time of writing this report it is yet to do so.

## **2025/26 Business Rates**

Under the NDR system, businesses pay councils based on the open market rental value of their business property, as estimated by the Government's Valuation Office Agency (VOA). The rate payable by small businesses in 2025/26 will be 49.9p per pound (49.9%) of their property's rateable value, and the rate payable by other businesses will be 55.5p (55.5%).

In the 2024/25 LGFS the Government changed the mechanism for the multiplier. Previously all businesses paid the small business multiplier, with those businesses with a rateable value (RV) of over 51,000 then paying an additional supplement. In the 2024/25 LGFS, government un-coupled the multipliers to enable them to be inflated separately. This enables government to increase the charges to businesses occupying premises with an RV of over 51,000 whilst either freezing, or increasing by a separate amount, the charges to businesses occupying premises with an RV less than 51,000. For 2025/26 they have chosen to freeze the multiplier at 49.9p for those properties with an RV less than 51,000, but increase the multiplier paid by those with an RV over 51,000 by 0.9p from 54.6p to 55.5p.

Legislation sets out that the multiplier should increase by CPI for September in each year, but in practice the multipliers had been frozen from 2021/22 until 2025/26. It had also not increased by CPI, but RPI, in some of the preceding years.

The Government compensates local authorities for their decisions relating to business rates through s31 grants, and hence the Council does not lose out for the decision to freeze the multiplier (and in previous years applied RPI increases rather than CPI).

The Government has also made further changes to discounts for 2025/26. Since the onset of COVID-19, government has underpinned the retail, hospitality & leisure sectors by providing discounts, for businesses operating in those sectors, against their business rates liability. During 2024/25 the discount provided has been set at 75%, this will reduce to 40% in 2025/26. The discount available to each business is capped at £110,000 per economic actor.

The Council is budgeting to retain £9.593m of business rates for 2025/26. This includes the £4.832m from the LGFS (£4.753m during 2024/25); additional income, such as local growth above this baseline and from relevant renewable energy projects; and offset by additional expenditure; such as the levy on additional income. In addition to the £9.593m directly from the business rates system, £0.800m has been

Below are some of the key risks which could affect the amount of business rates income collected and thus retained in future years:

- slower than anticipated local economic growth, or local economic growth at a rate less than the change in Consumer Price Index (CPI) used to determine annual business rates payable;
- successful backdated appeals from businesses regarding the amounts of business rates payable in previous years;
- uncollectable debts which need to be written off; and
- unpredictable increases in the amounts of discretionary reliefs granted to businesses.

Currently, the Council use external consultants Analyse local, who assist the Council with forecasting losses in RV based on future appeals that may come forward. For the 2025/26 financial year £0.414m has been set aside in order to provide for any successful appeals (£0.400m for 2024/25). The Council's share of this is 40% and hence this has reduced income for the Council by £0.166m.

If appeals that the Council has provided for (set money aside) are unsuccessful or are successful but cost the Council less than the amount set aside for these appeals, the Council can release the surplus provisions back into the Collection Fund, in order that this may then be re-distributed back to the Council and its preceptors. Similarly, where appeals are settled higher than funds set aside, an additional charge would need to be levied from the Council and its preceptors in order to fund the deficit arising.

Annually in January each year, the Council has to declare its expectations of the 31<sup>st</sup> March outturn position for the Business Rates collection Fund. This includes a revision to the expected amount of income into the collection fund and similarly a revision to the expected losses due to bad debts and appeals. As such, it is expected that the Collection Fund will close for 2024/25 with a surplus balance of £630,898 of which 40% relates to this Council (£252,359). This declared surplus will therefore be released to all preceptors during 2025/26. Any variation to this figure when the year has finished will be adjusted for and distributed or clawed back during 2026/27.

In addition to the above, as the Council is part of the Nottinghamshire Business Rates Pool, the Council gains from pooling its resources locally. It has currently been forecast that the return funding from the pool for the 2025/26 financial year will be £0.800m which has been built into the Council's Medium Term Financial Plan within the Business Rates total.

## **1.5 Local Government Finance Settlement: Settlement Funding Assessment (SFA) and Core Spending Power**

The annual Local Government Finance Settlement provides councils with the amount of government grant and other information pertinent for setting the next financial year's

budget. The provisional settlement was announced on 18 December 2024, and the final settlement is still to be announced.

Core Spending Power (CSP) is a measure of the resources made available to local authorities to fund service delivery, based on the Government's annual Local Government Finance Settlement (LGFS). Government makes assumptions within this based on levels of Council Tax and growth in an authorities Tax Base (the Band D equivalent number of properties to charge Council Tax over).

As part of the Provisional LGFS Government an increase of almost £3.9bn or 6% in cash terms in CSP over and above the 2024/25 settlement was announced nationally. The table below shows the Core Spending Power for Newark and Sherwood (as assumed by Government) together with the proposed actual Core Spending power. The Governments assumption works out to be cash flat (hence a zero percent increase) compared with the 2024/25 settlement, whilst the proposed budget actually shows a decrease of 0.87% or £0.134m in cash terms. This compares against an increase of 0.32% when compared with other Shire Districts. Districts have had the lowest increases in CSP for a number of years.

The reason for the difference between the Governments assumption and the proposed budget is the calculation of additional properties chargeable for Council Tax. The Government has assumed an increase of 2% on the Council's Council Tax Base which equates to an increase of 15% compared with last years' increase (740.79 increase in CTB in 2024/25 whilst assumed 851.85 increase in CTB in 2025/26).

	2024/25	2025/26 draft LGFS	2025/26 Proposed Budget
Business Rates funding	£3.986m	£4.030m	£4.030m
Compensation for under-indexing the Business Rates multiplier	£0.767m	£0.802m	£0.802m
Revenue Support Grant	£0.243m	£0.287m	£0.287m
Council Tax	£8.286m	£8.705m	£8.571m
New Homes Bonus	£0.327m	£0.987m	£0.987m
Minimum Funding Guarantee (now named Funding Floor)	£1.612m	£0.205m	£0.205m
Services Grant	£0.026m	£0m	£0m
Rural Services Delivery Grant	£0.052m	£0m	£0m
Domestic Abuse Safe Accommodation Grant	£0.033m	£0.034m	£0.034
Recovery Grant	£0m	£0.321m	£0.321m
Grants rolled in	£0.039m	£0m	£0m
<b>Total</b>	<b>£15.371m</b>	<b>£15.371m</b>	<b>£15.237m</b>

## 1.6 Council Tax

Chapter IVA (Limitation of Council Tax and Precepts) of the *Local Government Finance Act 1992* requires billing authorities to hold referenda if their relevant basic amount of council tax for a financial year is in excess of a set of principles determined by the Secretary of State.

An authority's relevant basic amount of council tax is its average band D council tax excluding local precepts. The relevant basic amount of council tax for Newark & Sherwood District Council includes the levy that Internal Drainage Boards charge the Council. These are the Upper Witham Internal Drainage Board and the Trent Valley Internal Drainage Board.

Since 2016/17, shire district councils have been able to increase council tax by the greater of the core principle or £5.00 without holding referenda. For 2018/19 and 2019/20, the core principle was 3%; and for all other years, the core principle was 2%.

The proposed core principle for 2025/26 is 3%. The Government's proposed council tax referendum principle for shire district councils therefore permits increases in the Council's 2024/25 relevant basic amount of council tax of up to (and including) the greater of 2.99% or £5.00 without holding a referendum.

The Council calculates how much annual council tax income it can receive by multiplying the Council tax base (CTB) by the average band D council tax rate. The Council tax base is the total number of properties equivalent to band D which are liable for council tax after discounts, exemptions and premia.

The Council's MTFP assumes that the 2025/26 CTB will be 0.9% higher than the 2024/25 CTB, and that there will be an increase of 400 band D equivalents in CTB for 2026/27 and subsequent years.

The table below shows the additional income the Council would expect to receive over the four years of the MTFP, based on council tax increases of 2.99% in 2025/26, compared to if council tax was frozen at the 2024/25 level during 2025/26 but increased by 2.99% annually thereafter:

Table 2

<b>Effect of council tax changes</b>	<b>2025/26 (£m)</b>	<b>2026/27 (£m)</b>	<b>2027/28 (£m)</b>	<b>2028/29 (£m)</b>	<b>MTFP (£m)</b>
Additional income from 2.99% increase in all years	0.249	0.259	0.269	0.279	<b>1.056</b>

Annually in January each year, the Council has to declare its expectations of the 31<sup>st</sup> March outturn position for the Council Tax collection Fund. This includes a revision to the expected amount of income into the collection fund and similarly a revision to the expected losses due to bad debts and appeals. As such, it is expected that the Collection Fund will close for 2024/25 with a deficit balance of £1.500m of which 11.59% (this includes Town and Parish Council precepts) relates to this Council (£173,900). This declared deficit will therefore be clawed back from all preceptors during 2025/26. Any variation to this figure when the year has finished will be adjusted for and distributed or clawed back during 2026/27.

## 1.7 New Homes Bonus (NHB)

New Homes Bonus (NHB) is a government grant paid to councils to incentivise local housing growth, based on the extra council tax income raised from new homes. NHB is paid to councils with growth in their housing stock above 0.4% of their existing council tax base.

The Government plans to consult on the future of NHB, with a view to implementing reform in 2026/27. It was anticipated as part of the previous version of the MTFP that NHB would be phased out during 2025/26 and hence the Council would not receive an allocation.

Details of the Government's final NHB allocations for 2025/26 and the three years previous are in the table below.

Table 3

Year	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
<b>Total</b>	1.573	0.888	0.327	0.987

NHB is not ring-fenced, and thus can be used to fund either revenue or capital expenditure. To-date, the Council has not needed to budget to use NHB to fund its General Fund revenue expenditure, as budgeted funding from council tax, business rates and other sources has been sufficient.

In previous years, NHB has been used to fund key regeneration projects. The assumption for 2025/26 was that the Minimum Funding Guarantee (now Funding Floor (FF) (described in the next section)) grant would continue at a similar level to 2024/25. As NHB has increased for its final year and subsequently the FF grant has reduced, it is therefore necessary to use 100% of this NHB grant to fund the revenue budget for 2025/26.

As per section 1.2, NHB is within scope of the proposed reforms to the local government finance system. There have now been six one-off NHB allocations, starting in 2020/21 but it is likely that NHB will end after the 2025/26 allocation, although the design of a replacement is no clearer than it was when the Government issued its consultation almost three years ago.

## 1.8 Other Grants

- Recovery Grant – This grant will distribute £600m using a formula that focusses resources on authorities that have high levels of deprivation and relatively low ability to generate Council Tax income. Jim McMahon MP suggested the purpose of this grant is to “to get Councils back on their feet”. This is partly about giving additional funding to those councils who have had the largest cuts in funding since 2010/11 and about anticipating the changes in funding in 2026/27.
- Services Grant – This grant will be abolished in 2025/26
- Rural Services Delivery Grant – This grant will be abolished in 2025/26
- Minimum Funding Guarantee – This grant has been renamed “the Funding Floor”. It ensures that every authority is no lower in cash terms (based on the Governments assumptions) than it was in 2024/25.



- National Insurance Grant –The Government also announced that Public Sector authorities would receive a grant to compensate them for the additional cost. Based on modelling it is expected that the grant will not fully cover the additional cost of the NI contributions. £179,000 grant is currently forecast to be received in 2025/26, which has been split proportionately between the HRA and the General Fund. £137,890 has been budgeted for within the GF. The additional cost of the increase to the GF is £412,000 and therefore there is a deficit in the increase estimated costs of £274,110 More details regarding the additional cost of this to the GF is in the Employee Costs section.

## **2 Income from Fees and Charges**

The Council's income from fees and charges for statutory and discretionary services is an essential part of the Council's General Fund revenue budget. Section 93 (Power to charge for discretionary services) of the *Local Government Act 2003* requires charges to be set such that taking one financial year with another, the income from charges for a service does not exceed its costs of provision.

Discretionary services are those for which the Council has the power, but not duty, to provide; though also include additions or enhancements to statutory services that the Council provides above standards legislated for.

The Action Plan to the Commercial Strategy approved at Policy and Finance Committee on 27 January 2022 set the expectation that new areas for charging and understanding price elasticity of demand on existing charges would be reviewed to ensure that discretionary charges are set at the right levels and for the right activities. The Council should ensure that fees and charges for discretionary services are set which:

- ensure the maximum revenues possible;
- are allowed by the Council's Corporate Fees and Charges Policy; and
- are socially and politically acceptable.

The tables in section 5 identifies further fees and charges income as key to bridging the Council's funding gap. It is anticipated that new annual income of £0.093m will be generated by delivering the Commercial Strategy. This may be by stretching existing fees and charges income targets, new income streams, and/or a combination of both. Individual projects which will contribute to this target are described at table 5 in section 5 below.

## **3 Reserves and Balances**

Section 25 (Budget calculations: report on robustness of estimates etc) of the *Local Government Act 2003* requires local authority chief finance officers (Section 151 officers) to report on the adequacy of financial reserves in the Council's proposed budget and robustness of estimates made.

The Council has reviewed the adequacy of its useable financial reserves to ensure that these are neither too low (imprudent) or too high (over prudent) based on their purpose and likely use.

Councils generally hold useable reserves for three purposes:

- as a working balance, to mitigate the impact of uneven cash flows;
- as a contingency, to mitigate the impact of unexpected events or emergencies; and
- as earmarked reserves, to pay for known or predicted future requirements.

The Council's £1.500m General Fund balance has been set aside to pay for exceptional items. Officers consistently review the appropriateness (prudence) of this amount considering internal and external risks identified. For the Council to maintain this balance, it is intended that it will only be used to fund expenditure once other appropriate reserves have been fully utilised.

**Appendix A** shows the balances which comprised the Council's total reserves at the end of 2023/24. It also shows the balances expected to comprise the Council's total reserves at the end of 2024/25 to 2028/29.

Over the years, the Council's reserves have been used, for reasons such as to: cover the cost of one-off events not budgeted for; and support and improve service delivery. Whilst this principle still exists, the Council has set up a Medium-Term Financial Plan (MTFP) Reserve, in order to mitigate future pressures based on the uncertainty over local government funding. This reserve will be released over the medium-term to smooth the impact of anticipated funding reductions arising from changes in the local government funding formula.

Members and officers are required to ensure the Council operates as a going concern: that the Council will continue to fulfil its functions for the foreseeable future. If this were not the case, for example, because of an imprudent use of council reserves, the Council's external auditors would be required to express a going concern opinion (GCO). A GCO would be the external auditor's way of expressing significant doubt on the Council's ability to operate longer-term.

### **Robustness of Estimates and Adequacy of Reserves**

The *Local Government Act 2003* requires the Council's Chief Financial Officer (Section 151 Officer) to comment on the robustness of the estimates and also on the adequacy of the proposed reserves.

The Council's total forecast General Fund revenue and capital reserves and fund balance to 31 March 2026 is £34,084,035.

The budget has been prepared in accordance with the budget strategy approved by Cabinet on 24 September 2024. The same strategy has been adopted for the period of the MTFP.

The Section 151 Officer also notes that in the future, all local authorities, and in particular district councils, will face a reduction in core funding from the Government once changes to the current funding regime (in particular New Homes Bonus and Business Rates). The Section 151 Officer is closely monitoring the progress of the Fair Funding Review, the Government's departmental multi-year Spending Review and the redesign of the national Business Rates Retention System. The Council's current projections within the Medium-Term Financial Plan (MTFP) make prudent and robust assumptions around the likely level of funding in light of these government-led reviews.

#### **4 Assumptions Made Within the MTFP**

Finance officers and budget holders have developed detailed budgets for 2025/26 and future years. Officers have used the information available to them (past, present and future), and have made appropriate assumptions where the relevant information has been unavailable to them.

A 3% increase in basic pay has been assumed for 2025/26 and 3% for each subsequent year of the Council's MTFP.

If the 2025/26 pay award is agreed at a higher rate than the 3% increase in basic pay assumed, and if reductions in employee costs elsewhere cannot offset the increase in pay award costs, the additional costs unbudgeted for will need to be funded from council reserves. Section 1.11 examines this in more detail.

Most non-pay expenditure budgets have been uplifted by 2% in each year of the Council's MTFP. Some costs, such as insurance and utilities, are expected to increase by more than 5%; and others, such as fixed-price goods and services, have been increased in line with contractual obligations.

The Council's General Fund revenue budget is charged for the purchase or creation of fixed assets where capital resources are unavailable at the time. These charges will be in line with the Council's Minimum Revenue Provision (MRP) policy for 2025/26, which is recommended by the Audit and Governance Committee on 19 February 2025 for approval by Full Council on 6 March 2025.

This MTFP also assumes currently that the proposed Local Government Reorganisation has no impact on the spending plans for this authority in so much as any income and expenditure that this authority would spend, would be replicated into any new authority. It would be for the new authority to dictate resource allocation and levels of Council Tax, and therefore and the time of writing this report, this is a long way from being the case.

As such expenditure and income has been forecast based on the Council's current Community Plan commitments as far as is usual when building its MTFP.

#### **Assumptions not made in the MTFP**

The Council recently received notification that it will receive £1.427m in Extended Producer Responsibility payment from DEFRA for 2025/26, in relation to estimated net efficient costs associated with collection of household packaging waste from kerbside and communal collections. Whilst this receipt is budgeted for, it has been transferred directly to reserves. It is expected that this funding will be used for the food waste collection service that is due to be rolled out across Nottinghamshire from October 2027. Officers continue to work with colleagues in the Environmental Services Business Unit to understand the impact of the roll out of the service and how this will impact the MTFP.

The Council also received (during 2024/25) £983,377 from DEFRA in respect of the capital funding to purchase the refuse freighters and other equipment necessary to roll out the food waste service. Latest assumptions are that the capital cost would equate to £1.570m being £0.586m short from the capital grant. The Council has also been notified of a further grant

of £1.427m in revenue funding in respect of the Extended Producer Responsibilities. The notification letter describes this funding to cover estimated net efficient costs associated with collection of household packaging waste from kerbside and communal collections, and waste brought to bring sites only. It is expected that this funding will continue throughout the life of the MTFP, albeit the size of the payment is undeterminable. The shortfall of £0.586m in capital expenditure will be funded by this grant with remaining balance of £0.841m being held in reserves pending further detail regarding the capital funding required for the replacement of the refuse freighters and equipment at the end of their useful life (circa 7 years).

## 5 Proposed strategy for bridging the funding gap

The table below shows the contributions to and from reserves currently projected for each year of the Council's MTFP (as described at the table in paragraph 1.1), and the actions currently proposed to mitigate the annual contributions from reserves projected for 2025/26 through to 2028/29:

Table 4

	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)	2028/29 (£m)
<b>Funding Shortfall prior to Mitigations</b>	<b>0.000</b>	<b>2.281</b>	<b>2.335</b>	<b>2.679</b>
<b>Previous Year Mitigation</b>			<b>(0.763)</b>	<b>(1.026)</b>
Dividends from Arkwood Developments Ltd	-	-	<b>(0.250)</b>	-
Target saving for borrowing costs and MRP	-	<b>(0.300)</b>	-	-
Savings from Leisure Management review	-	<b>(0.142)</b>	<b>(0.013)</b>	<b>(0.005)</b>
Savings from service reviews	-	<b>(0.098)</b>	-	-
Savings/efficiencies from making business processes more efficient	-	<b>(0.130)</b>	-	-
Increased income from the Council becoming more commercial	-	<b>(0.093)</b>	-	-
Use of MTFP reserve to offset contributions from reserves in future years	-	<b>(1.518)</b>	<b>(1.309)</b>	<b>(1.648)</b>
<b>Proposed General Fund Funding Gap</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

As per **Appendix A** the MTFP reserve is expected to have a closing balance at the end of March 2025 of £8.261m. As per table 4 above the proposed utilisation of balances from the MTFP reserve during 2025/26 to 2028/29 will leave a balance of £3.787m at the end of March 2029.

The Council's projected General Fund revenue budget monitoring outturn variance as at 30 September 2024 was a favourable variance of £0.719m. The favourable variance could be utilised for replacing borrowing within the current capital programme financing to help towards the target saving of £0.300m for the borrowing costs and MRP.

The Council's Leisure facilities are currently managed by Active4Today. The savings expected from the Leisure Management Review relate to a recent successful litigation by Chelmsford City Council (and others) which confirmed all supplies of local authority leisure services are non-business that were previously taxable or exempt. The Council in 2024/25 received a VAT refund of £213,676 from HMRC for the period 1<sup>st</sup> April 2007 to 30 April 2011. Following on

from this, an opportunity has arisen to change the status or capacity at which A4T provide the services, which could create savings for A4T and therefore their level of Management Fee could reduce. Once the review has taken place, a report detailing the potential changes will be reported to Cabinet for approval.

The previous years MTFP had a mitigation target of £0.170m within financial year 2026/27 for the savings from service reviews and currently the Council has achieved £0.072m of the target from departments, therefore there is still £0.098m as a target by 2026/27.

During the financial year the Council has expanded the Private Sector Lifeline service, further detail is in table 5 below and generated an additional £0.107m net income for the financial year 2026/27 which is contributing towards the previous MTFP target of £0.200m increased income from commercial activities, hence the table above having a target of £0.093m for increased income from the Council becoming more commercial.

Officers will continue to work with elected Members to review the inherent deficit and address the longer-term financial sustainability of the authority.

As the Council has received, for a number of years, return funding from the Nottinghamshire Business Rates Pool in relation to the local growth retained (split with Nottinghamshire County Council), a forecast of the additional funding to be generated next financial year has been made of £0.800m. This has now been budgeted for within the main budget, and hence is now not shown in the table above.

The Council's wholly owned development company – Arkwood Developments Ltd are expected to pay a dividend during 2025/26 equivalent to £500,000. This has therefore been budgeted for during 2025/26 and the remaining figure in the table above is the iterative additional figure expected in 2026/27 and beyond.

Each update to this MTFP will therefore report on progress against each of the headings in the table above, to ensure that each year's budget is balanced.

Since 2010, the Council has made significant savings in line with government grant reductions. Though further savings may become harder to identify and deliver, particularly from spend not on employees (as mentioned in section 6 below), it is essential that the Council continues to identify areas where spend can be reduced and/or income increased. This is so that the Council can continue to operate sustainably over the longer-term and into any newly created authority.

The Council's total income will need to increase significantly, if it is to continue delivering and improving the services it currently provides and not use its reserves to cover the deficits currently anticipated for 2026/27 and future years.

Councils are severely restricted in how much funding they can raise from council tax increases without holding referenda. As mentioned in section 1.6, the Council can increase council tax in 2025/26 by the greater of 2.99% or £5.00 without holding a referendum. A 1% decrease in council tax is equivalent to £83,228 of net expenditure.

The Council's Commercial Strategy and Action Plan, approved by Policy and Finance Committee on 27 January 2022, aims to make Newark and Sherwood an *“innovative and*

*entrepreneurial Council that continually achieves positive annual financial contributions; by generating new revenue and delivering cost reductions, through trading and business improvements".* The Council has begun to benefit from the projects which have been completed to date since the Commercial Plan 2017-18 to 2020-21 was approved in October 2017 and expects to increasingly benefit in future years from the implementation of the current strategy, however the task of identifying and implementing new streams of income generation is challenging. The Council's work across the district (externally) and with services council-wide (internally) will be crucial to enabling the Council's future sustainability and growth. This is particularly as changes to the local government finance system increase the rewards for councils able to facilitate local economic growth.

At the Cabinet meeting 24 September 2024, an update report was presented, informing Members of progress against the Commercial Plan. The table below updates further progress against those major projects identified:

Table 5

Project/Activity	Business Unit Lead	Detail	Expected income/savings (£)	January 2025 Update
<a href="#">Development of Clipstone Holdings</a>	Corporate Property	The project has now been submitted for Planning determination with an expected date of February 2025. At the same time work is progressing on the tender documents ready to go out in February 2025. It is expected tenants could occupy from Summer 2026.	£0.224m	Moved from 25/26 and included in MTFP £0.112 26/27 full £0.224 27/28 onwards
Industrial Units at Crew Lane, Southwell	Corporate Property	This project has been reviewed by officers and it is currently not viable from a financial perspective, and hence would not generate a return to the Council. Therefore this project has been ceased for the time being.	£0	Not reflected within the MTFP
Reduction in Management Fee to Active 4 Today	Regeneration and Housing Strategy	The forecast budget within the MTFP for 2024/25 to 2027/28 for the Management Fee to Active4Today over 2025/26 to 2027/28 equates to £1.75m. This has now been reduced to £0.408m due to reductions in utilities cost and additional income generated from partner sites.	£0.650m in year one and £0.350m in years post this	Included in the MTFP in all years
Expansion of Private Sector Lifeline service	Housing Services	The Council has been successful in expanding its offer for its private careline service and grown market share within the District whilst also expanding into the Mansfield area and taking on circa 1,000 additional customers there.	£0.155m reduced to £0.107m in future years	Included in all years in the MTFP

Amalgamation of Building cleaning contracts	Corporate Property	Currently there are a number of cleaning contracts across the Council at individual sites. Corporate Property have consolidated this into one contract (for which the tender is currently being evaluated).	£0.050m	Currently not reflected in the MTFP
Biodiversity Net Gain Monitoring fee	Planning Development	A charge was introduced during 2024/25. Currently determining applications prior to any receipts.	£0.450m	Currently not reflected in the MTFP

The table below shows which areas have the biggest increases in expenditure budgets in each of the last three years of the Council's MTFP, compared to the equivalent budget in the year before:

Pressures	Increase in 2026/27 budget, compared to 2025/26 budget (£m)	Increase in 2027/28 budget, compared to 2026/27 budget (£m)	Increase in 2028/29 budget, compared to 2027/28 budget (£m)
Employees	0.420	0.538	0.681
Electricity and gas costs	0.040	0.041	0.036

## 6 Risks Associated with the Budget Process

Budgets are only as accurate as the data available at the time they are developed. There are therefore risks that the proposed budgets in the Council's MTFP will differ significantly from reality (actual expenditure and income). Some of the factors which could cause adverse variances are:

- higher than expected inflation and/or interest rates;
- the Council receiving lower than expected amounts of grant funding and/or other income;
- the future differing significantly from the initial budgets proposed at the time of developing the MTFP;
- volatility of certain budget lines between years;
- underachievement of expected savings and/or efficiencies;
- unforeseen events and emergencies;
- unforeseen insurance costs or legal claims;
- lower than expected business rates growth.

Section 25 (Budget calculations: report on robustness of estimates etc) of the *Local Government Act 2003* requires local authority chief finance officers (Section 151 officers) to report on the adequacy of financial reserves in the Council's proposed budget and robustness of estimates made. This section fulfils that requirement.

In considering the Council's proposed budget for 2025/26 and the sensitivity of expenditure and income to changes, it should be noted that:

- a) a 1% increase in Council Tax is equivalent to £83,228 of net expenditure; and
- b) a £1 increase in Council Tax is equivalent to £42,721 of net expenditure.

Various assumptions were required to be made when preparing the proposed MTFP budgets. The two areas where it seems that variations between the proposed budget and reality could be greatest are employee pay and income receivable. Further details on each of these are below.

### **Employee Costs**

Employee costs form a significant proportion of all district council budgets. Employee costs comprise 52% of the Council's proposed controllable service expenditure budget for 2025/26 (total spend, excluding spend on capital costs, internal recharges and Housing Benefit payments).

This makes it less likely to achieve savings solely by reducing non-employee spend. It also means that the Council would need to use a greater proportion of its reserves if the costs of future years' pay awards exceed the 3% pay award currently budgeted for 2025/26 and/or the 3% pay awards currently budgeted for subsequent years.

A vacancy provision of 4% of the total salary budget for 2025/26 will be made to allow for natural savings being made from posts remaining vacant before being filled. With the challenges in recruiting that have been seen over the last two financial years, this appears to be a reasonable approach. The actual outturn of savings from vacancies amounted to 3.52% for 2023/24. As it is not possible to predict precisely which business units will experience vacancies in the year, an overall saving will be set aside.

National Insurance Contributions - From the 1<sup>st</sup> April 2025 the National Insurance (NI) rate for employers will increase from 13.8% to 15%. Additionally, the level at which employers will start paying NI contributions will reduce from £9,100 to £5,000. The impact of this on the General Fund is expected to be £412,000. The Government also announced that Public Sector authorities would receive a grant to compensate them for the additional cost. Based on modelling it is not expected that the grant will fully cover the additional cost of the NI contributions. £179,000 grant is currently forecast to be received in 2025/26, which has been split proportionately between the HRA and the General Fund. £137,890 has been budgeted for within the GF, hence leaving an additional cost to the authority of £274,110.

### **Income**

A significant part of the Council's annual net budget is dependent on income from rents; sales, fees and charges; and other receipts. Officers have reviewed the income that services have achieved against the current and previous years' budgets and have considered factors expected to affect future income levels, to ensure the 2025/26 income budgets for services have been set at levels considered achievable. Officers will monitor this closely over the coming year and revised forecasts over the medium term will be updated for the MTFP to be developed for the 2025/26 - 2028/29 years.

Significant underperformance against budgeted income would increase the Council's annual net expenditure, and thus place unbudgeted demand on council reserves. A 1% reduction in council income from fees and charges would cost around £54,000 in 2025/26.



## **Interest rates**

The proposed MTFP budgets include amounts for interest payable and interest receivable. This is because the Council expects that it will both borrow money and invest money throughout the four years of the MTFP.

The Council anticipates that it will use fixed interest rate loans when borrowing. This is so that the Council knows exactly how much its loans will cost over their durations, and this mitigates against the risk of interest rates changes and thus costs rising significantly over the loan period. As borrowing would be for longer than four years, the risk of the Council being unable to borrow to repay existing debt (refinancing risk) does not apply.

The budgeted amounts have accounted for factors such as the amount of council funds expected to be available and the time during the year for which cash is needed. The actual amounts of interest payable and receivable for 2025/26 will likely differ from those budgeted due to actual income and expenditure occurring at different time periods to that forecast.

The impact of a 1% change in interest rate would be insignificant on the Council's overall budget.

## **Inflation**

Most income budgets and non-pay expenditure budgets have been uplifted by 2%. Some costs, such as insurance and utilities, are expected to increase by more than 5%; and others, such as fixed-price goods and services, have been increased in line with contractual obligations.

The most recent month for which inflation data was available at the time of writing, December 2024, had a 2.6% increase in inflation (Consumer Prices Index (CPI)) from December 2023.

The small differences anticipated between actual inflation rates and the 2% budgeted for are expected to have insignificant impact on the Council's budget.

## **7 Capital Programme and Funding**

The overall proposed General Fund Capital Programme for the period from 2025/26 and 2028/29 totals £50.241m. £10.920m is financed by external grant funding for Towns Fund Project and Disabled Facilities Grant (DFG's). The DFG funding is received via the Better Care Fund (BCF) and is subject to an annual bidding process.

Council internal capital resources employed amount to £12.642m, which relates to the Council's contribution to the acquisition of the former Belvoir Iron Works, the redevelopment of Clipstone Holding Centre, Yorke Drive Pavilion, the remaining remedial works required at Southwell Leisure Centre and replacing parts of the Council's refuse fleet and other equipment.

In 2025/26 to 2026/27 Community Infrastructure Levy receipts will be used to finance the cost of £5.5m to improve the A1 overbridge at Fernwood. This bridge is part of the highways mitigation work to deliver the expansion of Fernwood.

Borrowing is the balancing figure for the capital expenditure at £21.178m. This type of financing attracts a charge to revenue called the Minimum Revenue Provision (MRP) calculated using the asset life method as approved by Council within the Treasury Management Strategy each year. The current method approved is the asset life method. This apportions notional borrowing incurred over the life of the asset, which is in line with the timeline for receiving economic benefits generated by the asset.

## **8.0 Implications**

In writing this report and in putting forward recommendations, officers have considered the following implications: Data Protection, Digital and Cyber Security, Equality and Diversity, Financial, Human Resources, Human Rights, Legal, Safeguarding, Sustainability, and Crime and Disorder and where appropriate they have made reference to these implications and added suitable expert comment where appropriate.

## **Background Papers and Published Documents**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

None